

**AGENDA ITEM 5**  
**RESOLUTION OF REAL ESTATE AUDIT FINDINGS**  
**(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)**  
**AS OF DECEMBER 31, 2005**

Partner/Property	Auditor's Finding and Recommendation	Status per Investment Office	Auditor Comment
<b>Miller Capital Advisory, Inc.</b> <b>(Sept. 2003)</b>  <b>Project Level</b>  <b>The Fashion Center at Pentagon City – Simon Property Group</b>	<p><b>1. Exhibit B of the Shopping Center Management Agreement</b> provides for 19 different fees or reimbursements to be paid the Manager. Most of these fees are defined as percentages of a definitive number or are flat amounts and thus subject to limitations. We noted however that three of these fees are based on the "cost of services." We noted that the agreement does not clearly define what is to be included in the "costs of services." The three fees in question are defined in Exhibit B as follows:</p> <p style="padding-left: 40px;">Purchasing Retail marketing Property management consulting.</p> <p>For the year 2002, Simon charged \$230,869 for these three fees. We were informed that this amount was an allocation of home office salaries and travel expenses, but specific support regarding personnel and travel costs was not given to us.</p> <p>The Auditor recommends that the agreement be amended to include a definition of the exact costs that are to be included in the "cost of services." This definition should include job titles of personnel to be allocated.</p> <p>In addition, the Auditor believes that a dollar or percent limitation should be placed on these fees since they are currently open ended. The Auditor also believes that Simon should retain support for the cost included in these fee allocations.</p>	<p><b>1. Simon</b> has no problem with amending the agreement to satisfy the basic concerns expressed in the <b>Recommendation</b>.</p> <p><b>INVO:</b> MCA and Simon are finalizing letter agreement amendment for execution.</p>	<p><b>1. PENDING:</b> Pending execution of the proposed amendment, Auditor concurs with the corrective action to be taken by Simon.</p>

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<p><b>Miller Capital Advisory, Inc.</b>  <b>(Sept. 2003)</b></p> <p><b>Project Level</b></p> <p><b>The Mall at Rockingham Park – Simon Property Group</b></p>	<p><b>4. Simon has a national gift certificate program.</b>  Under this program, a customer may purchase a gift certificate at any Simon managed mall and use the certificate in any store in any Simon managed mall. Simon manages this program by depositing all gift certificate sales proceeds into a central bank account for all malls and reimbursing the tenant stores from this central bank account upon cashing of the certificates. This program generates two types of income:</p> <p style="padding-left: 40px;">A material bank account balance in the gift certificate account on which interest could be earned.</p> <p style="padding-left: 40px;">Income from unredeemed gift certificates.</p> <p>Simon retains the income noted above and does not credit it back to the malls which generate the sales of the certificates. During the period of November 1, 2001 through October 1, 2002, \$5.3 million of gift certificates were sold at the Rockingham Park project.</p> <p>The Auditor recommends that gift certificate cash sales be tracked by mall and the projects be given credit for their share of interest earned as well as income earned from unredeemed gift certificates.</p>	<p><b>4. Simon's Gift Certificate Program</b> is a national program that is provided through the auspices of Simon Brand Ventures (a wholly owned affiliate of Simon Property Group) and Simon's Corporate Marketing Department. Similar to the individual mall marketing programs, Simon Brand Ventures and Simon's Corporate Marketing Department have numerous programs, some of which (the Gift Certificate Program included) generate revenues utilized to offset the costs of the entire program. Simon Brand Ventures and Simon's Corporate Marketing Department effectively subsidize the individual mall marketing programs by, among other things, reducing costs associated with the creation and placement of advertising through efficiencies of scale, through the various programs and on-mall shows, and through the revenues generated by these programs.</p> <p>It should also be noted that, while Simon Brand Ventures and Simon's Corporate Marketing Department retain almost all of the revenues from these programs, Simon Brand Ventures and Simon's Corporate Marketing Department also absorb all the costs and risks associated with these programs. There are also significant risks inherent in the programs (e.g., fraud, theft, etc.) which are absorbed entirely by Simon Brand Ventures.</p>	<p><b>4. PENDING.</b> Simon is providing a separate income statement for the gift certificate program which supports the claim that it generates a loss. This statement to be reviewed by the Advisor, Miller Capital, to determine if a loss is truly being incurred.</p>

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<p><b>Miller Capital Advisory, Inc.</b> (Sept. 2003)</p> <p><b>Project Level</b></p> <p><b>The Mall at Rockingham Park – Simon Property Group</b></p>		<p><b>4. Simon's Gift Certificate Program (Cont.-1):</b></p> <p>and Simon's Corporate Marketing Department rather than spread among the individual properties.</p> <p>In short, the Gift Certificate Program provides significant benefits to Ownership, a direct allocation of revenues and costs associated with that program would yield a net actual cost to Ownership. Because this program is part of Simon's Corporate Marketing Program, those net costs are absorbed within the context of the entire national marketing effort which, in turn, subsidizes the local marketing efforts.</p> <p>Rockingham's participation in the Simon Brand Ventures and Simon's Corporate Marketing Department means that it has effectively been allocated a share of the revenues in question.</p> <p>MCA to review information to be provided by Simon.</p>	

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<p><b>Capri Capital Management, LLC</b></p> <p><b>(March 2004)</b></p> <p><b>General Partner Level</b></p>	<p><b>1. (II-A)</b> The Auditor noted that Capri did not have written procedures documenting their information technology disaster recovery and business resumption plan.</p> <p>Subsequent to audit fieldwork, the Auditor received a summary of Capri's safety measures established regarding data protection and recovery procedures in the event of a disaster. The completion of Capri's Management Information System (MIS) Contingency Plan Disaster Recovery Manual was currently in progress.</p> <p><b>Recommendation</b></p> <p><b>The Auditor recommended that Capri complete and distribute the Management Information System Contingency Plan Disaster Recovery Manual to key personnel within the company.</b></p> <p>A completed Disaster Recovery Manual specifying the preparations prior to a disaster and the procedures to be completed by key personnel immediately thereafter are critical to the success of Capri's recovery from such an event.</p>	<p><b>1. (II-A) Capri Capital Management, LLC response,</b> "Please note that Capri's MIS Contingency Plan Disaster Recovery Manual (the "Plan") that was submitted to Conrad and Associates (via e-mail correspondence on January 6) is in draft form. Capri's MIS Department will engage Strohl Systems to provide a business impact analysis, and a final Plan will be distributed to key personnel within the company."</p> <p>INVO: Capri is continuing to work with Strohl Systems to complete the Disaster Recovery Manual and expects that the manual will be completed and distributed by December 2004.</p> <p>Capri has implementing disaster recovery procedures including redundancy in their computer systems with servers in multiple locations.</p> <p>INVO Update: The work on the Disaster Recovery Manual was not completed by December 2004 but we anticipate that the work will be completed by mid-2005. However, as noted above Capri has implemented disaster recovery procedures.</p>	<p><b>1. (II-A) PENDING:</b> The Auditor concurred with Capri's planned corrective action.</p>

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<b>Mercantile-Safe Deposit &amp; Trust Company - as Trustee</b>  <b>(April 2005)</b>	<p><b>3. (IV) Annual Consulting Fees</b> - Based on the Auditors review of the Trust's general ledger, it was determined that 2003 annual consulting fees paid to the Townsend Group have been allocated and paid from Trust Assets in the total amount of \$53,333. According to the Trustee, one-third of the annual consulting fees of \$160,000 have been allocated to the Trust. According to page 34 of the Investment Memorandum, the Trustee shall bear the cost of general administrative expenses. Section (iii) of the general administrative expense definition includes in part, "General administrative expenses are those costs and expenses that are...annual fees paid to any person or entity engaged by the Trustee to provide services including the identification, evaluation and <b>Recommendation</b> of proposed investments for the Trust." According to page 33 of the Investment Memorandum, the only fees payable from the Trust Assets are those fees relating to acquisitions and performance incentive payments regarding equity investments and participating mortgages. All other advisory fees shall be paid from the Trustee's fee.</p> <p><b>Recommendation</b> - The Auditors recommended that the Trustee reimburse the Trust for 2003 allocated consulting fees in the total amount of \$53,333. In the absence of an amendment to the Investment Memorandum, the Auditors further recommended that payment of such consulting fees adhere to the guidelines set forth in the Investment Memorandum dated July 1, 1999.</p>	<p><b>3. (IV) Mercantile-Safe Deposit &amp; Trust Company response</b>, "The Draft Report appears to assume that Townsend is providing substantially the same services as the Investment Advisors (note the discussion under part IV of the Report and the reference there to portions of the Investment Memorandum addressing Investment Advisor fees). While there may be some over-lap, Townsend's services are significantly different from those of the Investment Advisors. A major component of Townsend's services include assisting the Trustee in reviewing and negotiating agreements with the Investment Advisors, providing input with respect to industry standards and practice and fee structure and levels..."</p> <p><b>Investment Office</b></p> <p>AFL-CIO BIT is in the process of reviewing the contract of Townsend, specifically identifying the consultants services provided - See Nov 2, 2004, letter* sent by Manager, for reference.</p>	<p><b>3. PENDING:</b> (IV) The Auditors concur with the Trustee's response, pending completion of separate consulting contracts with Townsend, specifically identifying the consultants services provided for such annual fees.</p>

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<b>Global Innovation Partners, LLC</b>  <b>(Sept. 2004)</b>  <b>CAPSTAR Commercial Real Estate</b>  <b>Property Management Level</b>	<p><b>1. (IV) Univision Tower</b> - The Auditors selected two months of payroll costs during the audit period and noted that overhead expenses were included in each of the four pay periods ranging from 20.5% to 23.5% of the total payroll costs (administrative and engineering). According to Article 3.3.1 of the Agreement, corporate overhead expenses shall be borne by property management. Overhead expenses for the two sampled months totaled \$21,355. Overhead expenses for the audit period of 10/1/02 through 9/30/03 are estimated at \$133,319. This estimation is based on engineering and administrative salaries totaling \$666,597 and applying a flat twenty percent overhead rate.</p> <p><b>Recommendation</b> - The Auditors recommended that property management exclude allocated overhead expenses from the payroll costs charged to the property in accordance with Article 3.3.1 of the Agreement.</p> <p>In addition, the Auditors recommended that a reconciliation of actual overhead expenses for the year 2003 be compiled and credited back to the property.</p>	<p><b>1. (IV) Global Innovation Partners, LLC response:</b> No response provided.</p> <p>INVO Response: In subsequent conversation, Global has stated that the calculation is correct and that the overhead charges were incorrectly titled and represent taxes and insurance costs for the on-site personnel of the property manager. Additional audit tests are to be performed to verify a sample pay period.</p> <p>Conrad and Associates and GIP are following up on this item with the Property Management Company to get a detailed description of the payroll charges.</p> <p>The Auditor, after follow-up with Global Innovation Partners, has reduced the amount questioned for overhead expenses to approximately \$23,000. Global Innovation Partners, LLC is working with CAPSTAR to address the revised questioned amount.)</p>	<p><b>1. PENDING:</b> (IV) PENDING: The Audit recommendation remains as previously stated.</p>

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<b>CIM Group</b>  <b>(Oct. 2004)</b>  <b>General Partner Level</b>	<p><b>1. (II) Information Technology</b> - Based on inquiries made with the Director of Technology and other CIM management staff, the Auditor determined that CIM does not have complete and formal written procedures documenting the information technology disaster recovery and business resumption plans.</p> <p>CIM currently has plans in place that mirror the J2 Global Communications company plan. J2 Global Communications occupied office space in the same building as CIM and until last year, CIM used J2's server. Due to the growth of CIM and J2, CIM moved to its own server, network, and email in January 2004. According to CIM, J2 has engaged a consultant to assess its systems and business continuity plans. CIM plans to engage this consultant upon their completion of the J2 assignment.</p> <p>CIM's Director of Technology was interviewed and explained the current business resumptions processes. A formal written procedures manual is planned after completion of a consultant's review and recommendations for improvement.</p> <p><b>Recommendation</b> - The Auditors recommend that CIM prepare and distribute complete written procedures of the information technology disaster recovery and business resumption plans to the appropriate management personnel within the company.</p>	<p><b>1. (II) CIM Group response</b>, "As indicated in the Findings, CIM Group will work with a consultant to develop and implement a disaster recovery and business resumption plan. CIM agrees with the recommendation to prepare and distribute a written procedures manual to the appropriate management personnel, and will do so once the plan has been finalized."</p> <p><b>Investment Office Response:</b> CIM is currently developing a disaster recovery and business resumption plan and will prepare a written procedures manual. CIM is targeting the end of September 2005 for distribution of the manual.</p>	<p><b>1. (II) PENDING</b> - The Auditor concurs with the corrective action plan proposed by CIM.</p>

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<b>First Washington Realty, Inc.</b>  <b>(Feb. 2005)</b>  <b>General Partner Level</b>	<b>1. (II) Information Technology Internal Control System</b> - First Washington Realty, ("Advisor") has not formalized its information technology security measures and disaster recovery and business resumption plans into a written document, shared with all employees.  Advisor has not finalized the operations of its Alexandra, VA. Computer system "hot site".  Advisor does not require users to periodically change computer access passwords.	<b>1. (II) First Washington Realty, Inc. (FWR) response</b> , Written disaster recovery and business resumption plan is in draft and under by management.  Computer 'hot site' has been established and now back-up weekly to an "Iron Mountain" secure facility.  Advisor agrees to consider changing computer passwords more frequently.  RE Unit:  FWR to provide the Auditor with a copy of the disaster recovery and business resumption plan. FWR to adopt appropriate password security procedures.	<b>1. PENDING:</b> (II) - The Auditors concur with the Advisor's corrective actions regarding the disaster recovery and business resumption plan. Auditor continues to recommend more frequent changes to computer passwords.
<b>First Washington Realty, Inc.</b>  <b>(Feb. 2005)</b>  <b>General Partner Level</b>	<b>3. (VI-A) Sale of Bryan's Road Shopping Center</b> - September 30, 2003 general ledger and CalPERS' distribution documents indicate a difference of \$1,980 between \$7,903,052 received by Advisor and the payment amount in closing documents related to a bridge loan associated with the sale of the property. Difference of \$1,980 is not reflected in the general ledger or distribution to CalPERS.	<b>3. (VI-A) First Washington Realty, Inc.</b> indicates the \$1,980 difference may be due to an accounting error but is not a result of an underpayment of funds.  RE Unit:  FWR to provide Conrad with evidence of appropriate adjustment or correction.	<b>3. PENDING:</b> (VI-A) Notwithstanding the Advisor's response, Auditors continue to recommend the amount recorded in the general ledger be reconciled to the loan's closing statement or be refunded to CalPERS.

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<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Trammell Crow Company -</b> <b>Property Management Level</b> <b>Cherrywood Square</b>	<b>1. (IV) Deficiency Noted in a Tenant Security Deposit</b> - A tenant's deposit of \$2,251.67 is being held by the property manager although the current lease agreement indicates the required security deposit is \$0.00. Prior leases agreements required a security deposit from the tenant.	<b>1. (IV) First Washington Realty, Inc.</b> is currently researching this issue and will make appropriate adjustments.  RE Unit:  FWR to provide Conrad with evidence of appropriate adjustment or correction.	<b>1. PENDING:</b> (IV) The Auditors concur with the Advisor's corrective action plan.
<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Trammell Crow Company -</b> <b>Property Management Level</b> <b>Cherrywood Square</b>	<b>2. (V) Deficiencies Noted in Tenant Insurance Coverage –</b>  1) The insurance certificate for one tenant did not name CalPERS or the Advisor as additional named insured.  2) The insurance certificate for two tenants did not include evidence of coverage for Workers' Compensation or property insurance.  3) No insurance certificate existed in the property manager's file for one tenant.	<b>2. (V) First Washington Realty, Inc.</b> indicates property managers will ensure all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates will be retained at the property.  RE Unit:  FWR to provide Auditor with evidence of insurance certificates.	<b>2. PENDING:</b> (V) No comments by the Auditor. Corrective action to be completed by the Advisor.

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<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Cloppers Mill Village</b>	<b>1. (V) Deficiencies Noted in Tenant Insurance Requirements –</b> 1) Insurance certificates for multiple tenants do not name CalPERS or the Advisor as additional insured. 2) The insurance certificate for one tenant did not include sufficient property damage insurance to comply with lease agreement requirements of \$1,000,000 in property coverage. 3) The insurance certificate for one tenant did not include evidence of coverage for Workers' Compensation coverage.	<b>1. (V) First Washington Realty, Inc.</b> indicates property management will be required to ensure all tenants obtain minimum required insurance coverages and retain evidence of coverage for all tenants at the property.  RE Unit: FWR to provide Auditor with evidence of insurance certificates.	<b>1. PENDING:</b> (V) No comments by the Auditor. Corrective action to be completed by the Advisor.
<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Cloppers Mill Village</b>	<b>2. (VI-1) Deficiencies Noted regarding Third Party Contractor Files -</b> The insurance certificate for Laytonsville Contractors did not name CalPERS or Advisor as an additional insured.	<b>2. (VI-1) First Washington Realty, Inc.</b> indicates contractor will be required to obtain a revised certificate of insurance naming CalPERS and the Advisor as an additional insured.  RE Unit: FWR to provide Auditor with evidence of insurance certificates.	<b>2. PENDING:</b> (VI-1) No comments by the Auditor. Corrective action to be completed by the Advisor.
<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Newton Square</b>	<b>2. (V) Deficiencies Noted in Tenant Insurance Coverage -</b> Insurance certificates were not current for three tenants and CalPERS and the Advisor were not named as additional insureds on the certificates of insurance.	<b>2. (V) First Washington Realty, Inc.</b> agrees property management should retain current copies of tenant insurance certificates with CalPERS and the Advisor as additional named insureds.  RE Unit: FWR to provide Auditor with evidence of insurance certificates.	<b>2. PENDING:</b> (V) No comments by the Auditor. Corrective action to be completed by the Advisor.

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<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Newton Square</b>	<b>4. (VI-B) Deficiency Noted in Third Party Insurance Coverage</b> - The certificate of insurance for The Brickman Group did not name CalPERS or Advisor as additional insureds.	<b>4. (VI-B) First Washington Realty, Inc.</b> indicates the property manager will obtain a revised certificate of insurance from The Brickman Group which names CalPERS and Advisor as additional insureds.  RE Unit:  FWR to provide Auditor with evidence of insurance certificates.	<b>4. PENDING:</b> (VI-B) No further recommendations deemed necessary.
<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Overlake Fashion Plaza</b>	<b>1. (V) Deficiencies Noted in Tenant Insurance Coverage</b> - The certificate of insurance for one tenant did not contain evidence of workers' compensation and employer liability coverage. An insurance certificate for a second tenant did not name CalPERS as an additional insured.	<b>1. (V) First Washington Realty, Inc.</b> concurred with the Auditors recommendation that the property manager ensure that all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates be retained at the property.  RE Unit:  FWR to provide Auditor with evidence of insurance certificates.	<b>1. PENDING: (V)</b> Auditor deemed further recommendations unnecessary.

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<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Stanford Ranch Shopping Center</b>	<b>2. (V) Deficiency Noted in Tenant Insurance Coverage</b> - Copies of insurance certificates were not retained on file for three tenants. The insurance certificate for an additional tenant did not name CalPERS and the Advisor as additional insured.	<b>1. (V) First Washington Realty, Inc.</b> concurred with the Auditors recommendation that the property manager ensure that all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates be retained at the property.  RE Unit:  FWR to provide Auditor with evidence of insurance certificates.	<b>1. PENDING: (V)</b> Corrective action is to be performed by the Advisor. Auditor deemed further recommendations unnecessary.

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<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b> <b>Stanford Ranch Shopping Center</b>	<b>3. (VI) Property Walk-Through</b> – The existence of numerous maintenance issues detracts from the attractiveness of the property.	<b>3. (VI) First Washington Realty, Inc.</b> concurred with the finding and the Auditor's recommendation that property management and maintenance staff correct the maintenance items noted for the property and take the initiative to identify such items and have them corrected as part of normal maintenance inspections.  First Washington indicates the property manager will continue to be in contact with tenants on a regular basis to identify and correct maintenance issues. Corrections of all noted items noted will be complete by the end of 2005 first quarter.  RE Unit:  FWR to provide Auditor evidence of either the completion or scheduled completion of the maintenance items.	<b>3. PENDING: (VI)</b> - The Auditors concur with the corrective action of management.

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<b>First Washington Realty, Inc.</b> <b>(Feb. 2005)</b> <b>Property Management Level</b>  <b>The Village Shopping Center</b>	<b>1. (V) Deficiencies Noted in Tenant Insurance Coverage –</b> 1) The certificate of insurance for two tenants indicated coverage was expired. Current certificates of insurance were not on file. 2) The certificate of insurance for another tenant did not include CalPERS and the Advisor as additional named insureds.	<b>1. (V) First Washington Realty, Inc.</b> concurred with the Auditors recommendation that the property manager ensure that all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates be retained at the property.  RE Unit: FWR to provide Auditor with evidence of insurance certificates.	<b>1. PENDING: (V)</b> Corrective action is to be performed by the Advisor. Auditor deemed further recommendations unnecessary.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>General Partner Level</b>	<b>1. (III-1) Assets Management Fees</b> - Supporting worksheets used to calculate the 3/31/04 quarterly asset management fee contained a formula error (Cumulative average column) yielding an overstatement of fees totaling \$6,403.	<b>1. (III-1) LaSalle Investment Management, Inc.</b> has corrected the formula error to prevent future fee miscalculations. LaSalle will credit CalPERS \$6,403.00 on the next billing cycle, quarter ending 12/31/04.	<b>1. PENDING: (III-1)</b> - The Auditors concur with LaSalle's corrective action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>General Partner Level</b>	<b>3. (III-3) Disposition Fee</b> - The agreement (Exhibit H) states that the disposition fee should be based on the net sales price obtained by the company, after "credits". Currently, the fee calculation excludes commission fees and escrow fees but does not deduct pro-rated credits (such as rental income, management fees, security deposits and recovery billings).	<b>3. (III-3) LaSalle Investment Management, Inc</b> will recommend additional language to clarify "credits" as "closing costs," legal fees, commissions, transfer fees, etc. not to include prorated income & expenses. Net Sales price will be defined as sales price less closing costs.	<b>3. PENDING: (III-3)</b> - The Auditors concur with LaSalle's corrective action plan.

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**(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)**  
**AS OF DECEMBER 31, 2005**

Partner/Property	Auditor's Finding and Recommendation	Status per Investment Office	Auditor Comment
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>General Partner Level</b>	<b>4. (III-4) Development Management Fee</b> - The Contractor General Condition Costs and a Contractor fee cost of \$543,965 and \$258,179 respectively were included as "hard costs" for purposes of calculating the development fee. Pursuant to Exhibit H, #4 of the agreement, these costs should be excluded. The overstatement related to the two investments totaled \$2,526.	<b>4. (III-4) LaSalle Investment Management, Inc</b> will recommend that "Hard Costs" be defined as construction costs directly related to building material and labor, to exclude fees, legal costs, overhead, etc. The aforementioned will be defined as "Soft Costs".	<b>4. PENDING: (III-4) -</b> The Auditors concur with LaSalle's corrective action plan regarding the clarification of terms in Exhibit H of the Agreement. Inclusion of labors costs in the calculation of the Development Management Fee (DMF) appears reasonable. However, the Auditors recalculated the DMF excluding the Contractor Fees through 12/31/03, resulting in a credit due CalPERS in the amount of \$813.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>General Partner Level</b>	<b>5. (IV) Acquisition Process</b> - CalEast does not have written procedures documenting the current acquisition process.	<b>5. (IV) LaSalle Investment Management, Inc.</b> will accomplish this written procedure no later than March 31, 2005 and will forward to both Conrad and CalPERS upon completion.	<b>5. PENDING: (IV) -</b> The Auditors concur with LaSalle's corrective action plan.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>1. (II) Insurance Coverage</b> - Property management did not have evidence of Errors & Omissions insurance coverage as required by section 8.2.1 of the Agreement.	<b>1. (II) LaSalle Investment Management, Inc.</b> indicated that they carry the required coverage. They stated that this requirement was "overlooked" during the audit.	<b>1. PENDING:</b> (II) - The Auditors continue to recommend that property management retain documentation of such coverage.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>5. (IV-4) Rent Roll</b> - The commencement date for one of the tenants (Crown Cork and Seal Company) located at the Enterprise property did not agree with the lease agreement.	<b>5. (IV-4) LaSalle Investment Management, Inc.</b> believes that all information in the file agrees with the 8/1/02 commencement date.	<b>5. PENDING:</b> (IV-4) - The rent roll report dated 6/1/04 states a lease commencement date of 12/1/03. The Auditors recommendation remains as stated.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>6. (IV-5) Untimely Common Area Maintenance (CAM) Reconciliation</b> - The CAM reconciliation for the calendar year 2003 was not submitted until April 26, 2004 for both Davis & Enterprise.	<b>6. (IV-5) LaSalle Investment Management, Inc.</b> (LaSalle) indicates that CAM was processed and issued on March 10, 2004 to all tenants at Davis and Enterprise. A letter from the manager to the selected tenant representatives was processed on April 26, 2004, however statements were mailed in March. Additionally, LaSalle indicated that some tenant's contracts contain language allowing for 120 days to process Common Area Maintenance after the close of the year.	<b>6. PENDING:</b> (IV-5) - Submission of the CAM reconciliations in March 2004 were not documented in the respective tenant lease files. Therefore, the Auditors recommendation remains as stated.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>7. (IV-6) Insurance Premiums Included in Common Area Maintenance (CAM) Reconciliation-</b> CAM reconciliations for sampled tenants in 2003 for Davis & Enterprise included charges for insurance premiums. Pursuant to the respective tenant lease agreements, insurance costs should be recovered from tenants in a separate calculation.	<b>7. (IV-6) LaSalle Investment Management, Inc.</b> concurred that management can break out insurance costs as a separate calculation.	<b>7. PENDING:</b> (IV-6) - The Auditors recommendation remains as stated.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>10. (VI-1B) Walk Through</b> - Landscaping - Landscaping around the property was noticeably lacking in appeal at 20/30 Commerce way.	<b>10. (VI-1B) LaSalle Investment Management, Inc.</b> will replace TruGreen in 2005.	<b>10. PENDING:</b> (VI-1B) - The Auditors concur with LaSalle's correction action plan.
<b>CalEast Industrial Investors, LLC</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>(April 2005)</b> <b>Davis &amp; Enterprise Properties</b>	<b>11. (VI-2A) Walk Through</b> - Fire Hydrant - A fire hydrant located in the center of the parking lot in the rear of the building presents a safety hazard for vehicle traffic at the Enterprise property.	<b>11. (VI-2A) LaSalle Investment Management, Inc.</b> is relocating the fire hydrant with an anticipated completion date of December 31, 2004.	<b>11. PENDING:</b> (VI-2A) - The Auditors concur with LaSalle's correction action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>12. (VI-2B) Walk Through</b> - Suite 500 Stairs - The concrete stairway in the rear of suite 500 contained structural damage on the bottom step presenting a potential hazard at the Enterprise property.	<b>12. (VI-2B) LaSalle Investment Management, Inc.</b> has contracted ICM, Inc. in connection with their work installing a front entrance at Suite 500 to repair the stairs. Anticipated completion date is December 31, 2004.	<b>12. PENDING:</b> (VI-2B) - The Auditors concur with LaSalle's correction action plan.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Davis &amp; Enterprise Properties</b>	<b>13. (VI-2C) Walk Through</b> - Suite 300 Railing - The guard railing on the left side of the rear stairway of suite 300 is damaged from impact by a truck presenting a potential safety hazard at the Enterprise property.	<b>13. (VI-2C) LaSalle Investment Management, Inc.</b> has contracted ICM, Inc. in connection with their work to install a unisex bathroom at Suite 200 to repair the railing. Anticipated completion date is December 31, 2004.	<b>13. PENDING:</b> (VI-2C) - The Auditors concur with LaSalle's correction action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>1. (IV-1) Aging Accounts Receivable</b> - The accounts receivable aging for Mendenhall showed a past due balance of \$20,000 for one tenant (GSA/IRS). The receivable is over one year old. The aging currently shows the balance in the 60-89 outstanding days column. Since the amount is over a year past due, the aging incorrectly reflects the delinquent status of the receivable.	<b>1. (IV-1) LaSalle Investment Management, Inc.</b> indicated that they will "remind" their accountants of their policy.	<b>1. PENDING:</b> (IV-1) - Notwithstanding management's response, the Auditors continue to recommend that property management record a bad debt allowance.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b>  <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>2. (IV-2) Rent Roll</b> - The Rent Roll report for Seargeant's Pet Care of the Malone property did not agree to the stated date in the lease agreement. The lease agreement for this tenant stated a future rent increase date of 8/1/05. The rent roll report did not indicate a rent increase date.	<b>2. (IV-2) LaSalle Investment Management, Inc.</b> stated that their Yardi records accurately reflect the lease charges. The rent roll does not show when free rent ends. This is a design error with the rent roll, which is being reviewed by CalEast.	<b>2. PENDING:</b> (IV-2) - The Auditors concur with LaSalle's correction action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.</b> <b>Property Management Level</b>  <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>4. (V-1) Tenant Insurance Coverage</b> - The most current insurance certificate on file for Smith Container Company was dated 8/31/03. Additionally, no dollar amount of umbrella coverage was indicated on the insurance certificate.	<b>4. (V-1) LaSalle Investment Management, Inc.</b> indicated that a quarterly internal audit of insurance certificates will be implemented. Additionally, the new certificates indicates \$10 million of umbrella insurance.	<b>4. PENDING:</b> (V-1) - The Auditors concur with LaSalle's correction action.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.</b> <b>Property Management Level</b>  <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>5. (VI-1) Contractor Insurance Coverage</b> - Southern Disposal Company did not have an insurance certificate on file.	<b>5. (VI-1) LaSalle Investment Management, Inc.</b> indicated that since the audit CB Richard Ellis, Inc. has executed a contract with Southern Disposal Company on file.	<b>5. PENDING:</b> (VI-1) - Notwithstanding management's response, the Auditors continue to recommend that all vendor files contain copies of insurance certificates.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.</b> <b>Property Management Level</b>  <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>7. (VI-2B) Expired Contracts</b> - Malone tenants Phelps's Security and Hardy Property Service's vendor contract files both expired 12/31/03. No clause for automatic renewal was noted in the expired contracts.	<b>7. (VI-2B) LaSalle Investment Management, Inc.</b> indicated that Hardy signed a new contract after the completion of fieldwork. The security contract has been bid out and the manager is nearing the selection of a security company.	<b>7. PENDING:</b> (VI-2B) - The Auditors concur with LaSalle's correction action.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.</b> <b>Property Management Level</b> <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>8. (VI-2C) Insurance Certificate</b> - The Insurance certificate for Phelps's Security does not have the required Umbrella Excess Liability coverage of \$5,000,000. The current certificate stated coverage of \$1,000,000.	<b>8. (VI-2C) LaSalle Investment Management, Inc.</b> indicated that Phelps's Security has been given until 12/15/04 to produce proper insurance limits or be replaced.	<b>8. PENDING:</b> (VI-2C) - The Auditors concur with LaSalle's correction action.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>9. (VI-3) Walk Through</b> - Landscaping - The Landscaping was poor throughout the Mendenhall complex. The property manager indicated that the irrigation system was broken.	<b>9. (VI-3) LaSalle Investment Management, Inc.</b> indicated that the landscaping contractor has been replaced and the irrigation has been fixed.	<b>9. PENDING:</b> (VI-3) - The Auditors concur with LaSalle's correction action.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>10. (VI-4A) Walk Through</b> - Landscaping - The Landscaping was poor throughout the Malone complex.	<b>10. (VI-4A) LaSalle Investment Management, Inc.</b> indicated that the landscaping contractor has been replaced and the irrigation has been fixed.	<b>10. PENDING: (VI-4A) -</b> The Auditors concur with LaSalle's correction action.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>11. (VI-4B) Walk Through</b> - Abandoned Trailer - There was an abandoned trailer in the parking structure at the Malone property. According to the property manager, no one had claimed the trailer and they plan to tow the trailer in the near future.	<b>11. (VI-4B) LaSalle Investment Management, Inc.</b> gave tenants a notice to remove the trailer from the site by 12/31/04 or it will be removed from the site by a stated impound group.	<b>11. PENDING: (VI-4B) -</b> The Auditors concur with LaSalle's correction action.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Malone Distribution Center and Mendenhall Business Center</b>	<b>12. (VI-4C) Walk Through</b> - Unsightly Crates - Maine Rubber International, a tenant at Malone, has crates of used tires that are visible to the other tenants. Additionally, the area outside their building is not well maintained.	<b>12. (VI-4C) LaSalle Investment Management, Inc.</b> submitted a notice to Maine Rubber tire asking to comply with the lease and keep all tires inside the tenant's space.	<b>12. PENDING: (VI-4C) -</b> The Auditors concur with LaSalle's correction action.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Sabal Park</b>	<b>1. (IV-1) Common Area Maintenance (CAM) Reconciliation</b> - 100% of the management fees were included as operating expenses and charged to the tenant, Circuit City Stores, Inc. Per the tenant lease agreement, property management fees may not exceed 3% of base rent. Management Fees for the year 2003 totaled \$21,964, which exceeded the 3% limit of annual base rents by \$2,523.	<b>1. (IV-1) LaSalle Investment Management, Inc.</b> noted that this was inadvertent and that the balance will be credited/refunded to the tenant.	<b>1. PENDING: (IV-1) -</b> The Auditors concur with LaSalle's correction action plan.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Sabal Park</b>	<b>2. (VI-1A) B170 - Central Florida Landscaping</b> workers' compensation insurance did not have the box checked that indicates applicability of statutory limits for workers compensation coverage. According to the third party contract, the required workers compensation coverage is based on the laws of the State where the property is located. Additionally, it was noted that the monthly payment for June 2004 landscaping was underpaid by \$125. The monthly contract stated fees of \$1,095, whereas the amount charged to the general ledger totaled \$973.	<b>2. (VI-1A) LaSalle Investment Management, Inc.</b> indicated that the "box" was checked on the workers' compensation insurance certificate. Regarding the contract amount, CB Richard Ellis, Inc., was able to secure a lower contract amount, however the contract was not updated with the new rate. The Contractor has been asked to sign an amendment.	<b>2. PENDING: (VI-1A) -</b> The Auditors concur with LaSalle's correction action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Sabal Park</b>	<b>3. (VI-1B) Insurance Certificates - Rust-Off Inc.</b> did not have the required general liability coverage of \$5,000,000 per occurrence. The certificate of insurance on file indicates coverage of \$1,000,000 per occurrence.	<b>3. (VI-1B) LaSalle Investment Management, Inc.</b> indicated that the vendor is updating insurance coverage to meet the \$5,000,000 per occurrence. The new contract will be provided by December 15, 2004.	<b>3. PENDING: (VI-1B) -</b> The Auditors concur with LaSalle's correction action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>CB Richard Ellis, Inc.,</b> <b>Property Management Level</b> <b>Sabal Park</b>	<b>4. (VI-1C) Vendor Contract - The Biological Research and Bay Area Window Cleaning</b> contract did not contain a non-discrimination clause as required by CalPERS Responsible Contractor Policy. Additionally, monthly payments made to Bay Area Window Cleaning for April and June 2004 were overpaid by \$25 each.	<b>4. (VI-1C) LaSalle Investment Management, Inc.</b> indicated that a non-discrimination clause has been received from both vendors since the audit date. Additionally, all amounts paid to contactors were correct. Since the date of the audit, a new contract with the vendor has been signed stating the proper amount.	<b>4. PENDING: (VI-1C) -</b> The Auditors concur with LaSalle's correction actions.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>Trammell Crow Company, Property Management Level</b> <b>Hampton Oaks</b>	<b>1. (IV-1) Common Area Maintenance (CAM) Reconciliation</b> - The 2003 CAM reconciliation for Building II excluded roof repairs totaling \$1,960.	<b>1. (IV-1) LaSalle Investment Management, Inc.</b> does not believe these costs should be included as they pre-existed at the tenant's move-in date.	<b>1. PENDING: (IV-1) -</b> Since these repairs meet the definition of CAM expenses per the lease agreement, the Auditors recommend that future expenses in a like transaction should be coded to a non-reimbursable account with proper explanation on file.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>Trammell Crow Company, Property Management Level</b> <b>Hampton Oaks</b>	<b>3. (V-1) Insurance Coverage</b> - Mercedes Homes and Direct Administration did not have the required \$1,000,000 coverage for employers liability insurance as required by the lease agreement. Additionally, Mercedes Homes did not have the Workers Compensation statutory limits box marked on the insurance certificate.	<b>3. (V-1) LaSalle Investment Management, Inc.</b> agreed with the assessment. A revised certificate is being requested from this tenant.	<b>3. PENDING: (V-1) -</b> The Auditors continue to recommend that documentation be retained on file regarding Workers' Compensation statutory limits.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>Trammell Crow Company, Property Management Level</b> <b>Hampton Oaks</b>	<b>4. (V-2) Lease Commissions</b> - The broker commission paid to Cushman and Wakefield, for the Fisher Scientific lease, was not paid in accordance with Exhibit E to the Exclusive Authorization to Lease, resulting in an overpayment of \$6,674. According to property management, this increase was approved by the Advisor. However, no documentation was retained supporting the decision to deviate from the commission schedule.	<b>4. (V-2) LaSalle Investment Management, Inc.</b> disagreed with this finding. The increased commission rate was approved by the asset manager, Chris Harris, and was approved via signature on the lease abstract for the lease. This document was presented to the audit team.	<b>4. PENDING: (V-2) -</b> Notwithstanding management's response, the Auditors further recommend that analysis demonstrating that competing rates justify a deviation from the terms of Exhibit E should be retained on file.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>Trammell Crow Company, Property Management Level</b> <b>Center of Commerce I &amp; II</b>	<b>1. (IV-1A) Common Area Maintenance (CAM) Reconciliation</b> - The 2003 CAM reconciliation for United Leisure Industries Expansion revealed that the square footage in building 901 was incorrectly listed as 19,615. It was also noted that the tenant's pro rata share of expenses were allocated over 61 days instead of 71 days as determined by the 10/22/03 commencement date. These discrepancies resulted in an undercharge to the tenant of \$595.	<b>1. (IV-1A) LaSalle Investment Management, Inc.</b> agreed with the findings labeled A) and B) for the United Leisure Industries Expansion and Owens & Minor totaling \$686. This amount will be billed to the respective tenants.	<b>1. PENDING: (IV-1A) -</b> The Auditors concur with LaSalle's corrective action plan.
<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>Trammell Crow Company, Property Management Level</b> <b>Center of Commerce I &amp; II</b>	<b>2. (IV-1B) Common Area Maintenance (CAM) Reconciliation</b> - The 2003 CAM reconciliation for Owens & Minor revealed that the tenant pro-rate share is based on the lesser of actual allocated expenses or 105% of the prior year's expense. In the case of Owens & Minor, actual expenses exceeded the cap. However, the pro-rata share was calculated using actual expenses resulting in an overcharge of \$100.	<b>2. (IV-1B) LaSalle Investment Management, Inc.</b> agreed with the findings labeled A) and B) for the United Leisure Industries Expansion and Owens & Minor totaling \$686. This amount will be billed to the respective tenants.	<b>2. PENDING: (IV-1B) -</b> The Auditors concur with LaSalle's corrective action plan.

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<b>CalEast Industrial Investors, LLC</b> <b>(April 2005)</b> <b>Trammell Crow Company, Property Management Level</b> <b>Center of Commerce I &amp; II</b>	<b>3. (IV-1C) Common Area Maintenance (CAM) Reconciliation</b> - 2 instances were noted where amounts were incorrectly charged to buildings 908 & 909 for Owens & Minor. During the months of November and December 2003, charges related to Valley Crest Landscaping in the amount of \$504.70 and \$371.83 should have been charged to buildings 908 and 909, respectively. However, these charges were erroneously reversed resulting in an undercharge to building 908 and an overcharge to building 909. Additionally, tax recovery consulting fees of \$577.32 in October 2003 were charged twice to buildings 903 & 908, while buildings 904 & 905 were not charged.	<b>3. (IV-1C) LaSalle Investment Management, Inc.</b> agreed with the findings labeled A and B. The final calculation relating to the tax recovery on the Owens and Minor space was a classification error, and has been corrected for the coming year.	<b>3. PENDING: (IV-1B) -</b> The Auditors concur with LaSalle's corrective action plan. The Auditors further recommend that management review the expense coding for Valley Crest Landscaping in an effort to prevent future misclassifications.
<b>ORA Residential Investments I, L.P.</b> <b>(Resmark)</b> <b>(May 2005)</b> <b>General Partner Level</b>	<b>1. (II) IT Disaster Recovery &amp; Resumption Plans</b> - Resmark does not have complete and formal written procedures documenting the information technology disaster recovery and business resumption plans.	<b>1. (II) Resmark</b> noted that they do have recovery procedures in place. Resmark does agree however with the Auditor's recommendation that the current plan needs to be updated and revised.	<b>1. PENDING: (II) -</b> The Auditors concur with Resmark's corrective action.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>General Partner Level</b>	<b>2. (V) Investment Objectives</b> - Diversification by Builder - One Developer (William Lyon Homes) accounted for 29% of the total capital invested for all active properties in the portfolio. Exhibit B of the limited partnership agreement states that "No more than 20% of total capital shall be committed to any one homebuilder".	<b>2. (V) Resmark</b> believes they are in full compliance with the policy and that no further action is necessary at this time.	<b>2. PENDING: (V)</b> - Through inquiry, the Auditors confirmed that CalPERS tracks and benchmarks the concentration of individual builders based on the mix of the total CalPERS portfolio, not each individual General Partner portfolio. As such, no further recommendations are considered necessary.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>ColRich Communities – Bernardo Pines</b> <b>Property Level</b>	<b>1. Use of Net Proceeds to Fund Project Costs</b> - The Bernardo Pines LLC Agreement states that "Net Proceeds...will not be used to fund Project costs..." The Auditors noted that monthly wire transfers were made between the Net Proceeds account and the project operating account to fund monthly expenses. ColRich and Resmark agreed to supercede the Agreement and utilize available Net Proceeds.	<b>1. Resmark</b> has instructed its counsel to modify the standard language of the LLC documents for future deals to allow for use of net proceeds to fund project costs, provided that the builder must submit a standard draw request for use of these proceeds.	<b>1. PENDING:</b> - The Auditors concur with Resmark's corrective action.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>ColRich Communities – Bernardo Pines</b>  <b>Property Level</b>	<b>2. Inclusion of Corporate Expenses</b> - Several invoices for items generally considered to be overhead costs covered by the management fee were included separately as costs. These payments were comprised of computer software and miscellaneous office supplies. The amount noted in the Auditor's sample totaled \$6,657.	<b>2. Resmark</b> has requested that the Auditors provide copies of the backup for the specific expenses in question. If it is determined that these expenses should have in fact been paid from the ColRich 2.25% developer overhead fee, versus being an eligible on-site expense, Resmark will seek reimbursement of these expenses from ColRich. In addition, Resmark will review the current language of the standard LLC agreement with counsel to provide specific examples of the types of expenses that are included in the Developer overhead amount.	<b>2. PENDING:</b> - The Auditors concur with Resmark's corrective action plan regarding the inclusion of allowable expense definitions in future LLC agreements. Supporting documentation of corporate overhead expenses has been provided to Resmark for further review. Pending completion of Resmark's expense review, a final response to the audit finding should be provided to CalPERS.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>ColRich Communities – Bernardo Pines</b>  <b>Property Level</b>	<b>3. Management Fee</b> - The Bernardo Pines LLC Agreement defines the management fee as 2.25% of the net sales price of the 200 units in the development. The management fee to ColRich was overpaid in the amount of \$8,055.	<b>3. Resmark</b> calculates the amounts due to the partner based upon the actual closing statements for each home closed. They have verified that based on the actual closing statements, the proper amount of management fee was paid to ColRich. Resmark will discuss the discrepancy with ColRich to determine where the error was made. If the error was in ColRich's preparation of the financial statement, Resmark will request that ColRich correct the statement to reflect the actual closing statement revenues. If it is determined that <b>Resmark</b> made an error in its calculations from the unit closing statements, Resmark will request that ColRich reimburse the project for any overpayment of management fee.	<b>3. PENDING:</b> - Notwithstanding Resmark's response, the Auditors finding and recommendation remain as previously stated. The Auditors reviewed all sales lot files and recalculated the total net sales prices of \$57,671,596 within \$5,100.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>ColRich Communities – Bernardo Pines</b>  <b>Property Level</b>	<b>4(A). Allowable Commission Costs</b> - The Bernardo Pines LLC Agreement states that "...in no event shall the sales commissions included in Sales and Closing Costs exceed two percent (2%) of the sales price of each Unit." The Auditors believe the intent of this language was to allow actual commission costs up to a limitation of 2%. ColRich received the full 2% commission on each unit without regard to actual costs.	<b>4(A). Resmark</b> will discuss with its counsel the need to modify the language of the standard LLC document to clarify that the 2% commission is an allowance that is to be paid to Developer for its sales efforts, and not a maximum amount that is subject to reduction based upon actual costs of commissions.	<b>4(A). PENDING:</b> - The Auditors concur with Resmark's corrective action plan.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>ColRich Communities – Bernardo Pines</b>  <b>Property Level</b>	<b>5(A). Incentives in Excess of Agreement Amount:</b> Project Total Limitation - Sales incentives included in the June 30, 2004 reporting package prepared by ColRich totaled \$833,649 resulting in \$32,649 in excess of the limitation amount of \$801,000 (\$4,005/Unit).	<b>5(A). Resmark</b> noted that the Auditors correctly observes that the total buyer incentives for the project exceeded the maximum amount provided under the LLC agreement by \$32,649. This exception was approved by Resmark as a business decision made in conjunction with ColRich. Resmark can not seek reimbursement from ColRich based upon the mutual business decision that was made by the partnership. Resmark has instructed its Asset Managers to document all future exceptions to the maximum incentives in writing on all Resmark projects.	<b>5(A). PENDING:</b> - The Auditors concur with Resmark's response and corrective action plan to document all future incentives that exceed the limitation set forth in the respective LLC Agreement.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>ColRich Communities – Bernardo Pines</b> <b>Property Level</b>	<b>5(B). Incentives in Excess of Agreement Amount:</b> Lot-By-Lot Limitation - The Bernardo Pines LLC Agreement states that "in no event shall the cost of any buyer incentive/buy down for any Unit exceed Eight Thousand Dollars (\$8,000). After adjustment of the \$32,649 overstatement described in 5.A above, the Auditors noted \$173,090 of sales incentives, employee and affiliate discounts on 22 lots in excess of this limitation.	<b>5(B). Resmark</b> cannot seek reimbursement from ColRich based upon the mutual business decision that was made by the partnership. Resmark has instructed its Asset Managers to document all future by-lot incentive increases in writing on all Resmark projects.	<b>5(B). PENDING:</b> - The Auditors concur with Resmark's corrective action plan.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>1. Investment Return Calculation</b> - Draw # 24 was dated three days prior to the actual draw funding date. The additional interest calculated for the three days resulted in an overcharge of \$673.	<b>1. Resmark</b> has reviewed its records of Draw #24 and determined that an error was in fact made on the Investment Return schedule prepared by Resmark. Resmark will correct the Investment Return schedule and credit the project with the \$673 that was overcharged.	<b>1. PENDING:</b> - The Auditors concur with Resmark's corrective action plan.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>2. Inclusion of Corporate Expenses</b> - Several invoices for items generally considered to be overhead costs covered by the management fee were included separately as costs. These included payments for computer software, marketing studies, corporate employee bonus and miscellaneous food charges. The amount noted in the Auditor's sample totaled \$8,164.	<b>2. Resmark</b> has requested that the Auditors provide copies of the backup for the specific expenses in question. If it is determined that these expenses should have in fact been paid from the William Lyon Homes ("WLH") 3% Developer overhead fee (versus being an eligible on-site expense) Resmark will seek reimbursement of these expenses from WLH. In addition, Resmark will review the current language of the standard LLC agreement with counsel to provide specific examples of the types of expenses that are included in the Developer overhead amount.	<b>2. PENDING:</b> - The Auditors concur with Resmark's corrective action plan regarding the inclusion of allowable expense definitions in future LLC agreements. Supporting documentation of corporate overhead expenses has been provided to Resmark for further review. Pending completion of Resmark's expense review, a final response to the audit finding should be provided to CalPERS.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>3(A). Commission in Excess of Agreement Amount: Lot-by-Lot Limitation</b> - The Auditors noted \$74,258 of internal sales commissions and broker commissions on 19 lots in excess of the 3% lot-by-lot limitation as stated in the Agreement.	<b>3(A). Resmark</b> cannot seek reimbursement from William Lyon Homes, Inc., based upon the mutual business decision that was made by the partnership. Resmark has instructed its Asset Managers to document in writing all future exceptions to the by-lot commission maximum at all Resmark projects.	<b>3(A). PENDING:</b> - The Auditors concur with Resmark's corrective action plan regarding documented approval for all commission transactions exceeding the limit set forth in the respective LLC Agreement.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>3(B). Commissions in Excess of Agreement Amount: Project Total Limitation</b> - After adjustment of the \$74,258 individual lot excess described in 3(A) above, the Auditors noted an additional \$72,879 of sales commissions in excess of the 2% total commission limitation.	<b>3(B). Resmark</b> cannot seek reimbursement from William Lyon Homes, Inc., based upon the mutual business decision that was made by the partnership, they do believe that a written approval to exceed the 2% of the aggregate Adjusted Sales Price for all units needs to be formally signed by the partners. Resmark will draft this acknowledgement for signature by the parties and file with the original LLC agreement.	<b>3(B). PENDING:</b> - The Auditors concur with Resmark's corrective action plan.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>4. Commissions in Excess of Agreement Amount: Lot-by-Lot Limitation</b> - The Auditors noted one instance where an employee discount was given in the amount of \$7,740. This sales incentive exceeded the \$1,500 limitation in the total amount of \$5,240.	<b>4. Resmark</b> cannot seek reimbursement from William Lyon Homes, Inc., based upon the mutual business decision that was made by the partnership. Resmark has instructed its Asset Managers to document in writing all future exceptions to the by-lot sales incentive maximum at all Resmark projects.	<b>4. PENDING:</b> - The Auditors concur with Resmark's corrective action plan regarding documented approval for all incentive transactions exceeding the limit set forth in the respective LLC Agreement.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>5. Payroll Charges Relating to Another Project</b> - The Auditors noted one payroll entry relating to another project in the amount of \$2,322.	<b>5. Resmark</b> will review the matter with William Lyon Homes, Inc., and request reimbursement from William Lyon Homes, Inc.	<b>5. PENDING:</b> - The Auditors concur with Resmark's corrective action plan.

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<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>6(A). Developer's Insurance</b> - The Auditors noted that the medical expense coverage under the general liability policy did not reflect a \$5,000 limit as required by the LLC Agreement.	<b>6(A). Resmark</b> will draft a waiver letter that indicates that it has approved of William Lyon Homes, Inc., self insuring for the \$5,000 medical expense coverage. In addition, Resmark will instruct its counsel to strike the medical expense requirement from all future William Lyon Homes, Inc., LLC agreements.	<b>6(A). PENDING:</b> - The Auditors concur with Resmark's corrective action plan.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>6(B). Developer's Insurance</b> - The Developer did not provide evidence of auto liability coverage in the amount of \$1,000,000 as required by the LLC Agreement.	<b>6(B). Resmark</b> noted that Auto liability insurance coverage has been in place as required. No further action is required.	<b>6(B). PENDING:</b> - As Resmark is reviewing and has maintained copies of insurance certificates of Developers, no further recommendations are deemed necessary.
<b>ORA Residential Investments I, L.P. (Resmark)</b> <b>(May 2005)</b> <b>William Lyon Homes, Inc. – Creekside</b> <b>Property Level</b>	<b>7(A,B,C). Contractor Insurance</b> - The Auditors noted that third party vendor contractors Isaac Construction Company, D&L Stines Company and Landscape Development Company did not fully meet the insurance requirements in the LLC Agreement.	<b>7(A,B,C). Resmark</b> will review the discrepancies noted by CA with William Lyon Homes, Inc. Resmark will obtain evidence from William Lyon Homes, Inc., that the subcontractors noted have been brought into compliance.	<b>7(A,B,C). PENDING:</b> - The Auditors concur with Resmark's corrective action plan.

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<b>Wells Fargo Housing Advisors, Inc.</b> <b>"WFHAI"</b> <b>(June 2005)</b> <b>General Partner Level</b>	<b>1. (III) Base Fee Calculation (Projected Revenue - Options and Upgrades)</b> - Section 3.03 of the Agreement states in part, "...the General Partner shall be entitled to receive a fee ("Base Fee") in the amount equal to 1.85% of the total projected revenues from the sales of houses and lots for each of the Partnership's Projects, as determined under the pro forma budgets for such Projects." Options and Upgrade revenues were not consistently included in WFHAI's Estimated Gross Revenues used for calculating the Based Fees. Options and Upgrades included in a project's pro forma budget should be consistently included in WFHAI's Estimated Gross Revenues as it applies to the Base Fee calculation.	<b>1. (III) Wells Fargo Housing Advisors, Inc. (WFHAI)</b> indicated that the potential for options and upgrades on investments can vary greatly due to housing type and economic factors. WFHAI tends to error on the side of conservatism as upgrades can disappear quickly in slow markets. When gross revenues exceed expectations, the incremental increase in management fees payable to WFHAI will be paid at close out of the project. The amount of the adjustments paid to date have not been material. However, in light of the Auditor's comment, WFHAI will ask their underwriters to include an amount they feel is the most likely outcome.	<b>1. PENDING: (III)</b> - The Auditors concur with WFHAI's corrective action plan.
<b>Wells Fargo Housing Advisors, Inc.</b> <b>"WFHAI"</b> <b>(June 2005)</b> <b>General Partner Level</b>	<b>2. (III) Base Fee Calculation (Model Recovery Costs)</b> - Model Recovery income was included in WFHAI's Estimated Gross Revenues for purposes of calculating the Base Fee. This income line item actually represents model upgrade cost recoveries from the sale of model units and should be netted against the project's Marketing costs. Since this income is actually a cost recovery, it should be excluded from WFHAI's Estimated Gross Revenues for purposes of calculating the Base Fee. This treatment would be consistent with WFHAI's exclusion of pro forma utility reimbursements and various rebates from the Base Fee calculation.	<b>2. (III) WFHAI</b> indicated that some of its builders saw this request as an additional burden to the program. In some cases, the builder indicated that this would be a difficult calculation to perform. In comparison, utility reimbursement and various rebates are paid separately and are easy to account for. WFHAI does not concur with this recommendation.	<b>2. PENDING: (III)</b> - Notwithstanding WFHAI's response, the Auditors continue to recommend that model recovery income should be reclassified as an offset to a project's Marketing Costs. This type of adjustment is customarily an audit entry during the project close out.

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<b>Wells Fargo Housing Advisors, Inc.</b> <b>"WFHAI"</b> <b>(June 2005)</b> <b>General Partner Level</b>	<b>3. (III) Definition of Agreement Terms</b> - Section 3.03 of the Agreement states in part that the Base Fee should be equal to 1.85% of total projected revenues from the sales of houses and lots for each of the Partnership's Projects, as determined under the pro forma budgets. However, the Agreement does not specifically define projected revenues. For instance, Article I of the Agreement should include a definition of projected revenues and its allowable components. Currently, the revenue components in the project pro forma's used by WFHAI for Base Fee calculations include: projected sales prices, model recovery, options and upgrades, and average premiums.	<b>3. (III) WFHAI</b> indicated that any amendment to the existing partnership document regarding model upgrade income should be consistent with the other CalPERS housing partnership agreements. The WFHAI agreement should not be modified until there is an agreement by all the housing partners to this recommended change.	<b>3. PENDING: (III)</b> - Notwithstanding WFHAI's response, the Auditors continue to recommend that CalPERS and WFHAI address the definition of projected revenues for purposes of calculating the Base Fees. Although recommended, the Auditors do not concur that an amendment to the WFHAI agreement should be contingent upon a unilateral revision among other General Partners.

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